

Reports by
**the Chairman of the Board
and the President
of Molson Industries Limited
to the Shareholders**
at the
ANNUAL MEETING
on June 23, 1971

Cette brochure est aussi publiée en français. Un exemplaire de l'édition française est disponible sur demande à: Les Industries Molson Limitée, Service des Relations Publiques, C.P. 6015, Toronto A.M.F. Ontario.

Report by

**H. deM. Molson,
Chairman of the Board**

AUG - 3 1971

It is my very pleasant duty once again to welcome you to another annual meeting. We appreciate your interest as shareholders, and thank you for making the time available to join with us in our review of the company's affairs.

In thinking over what might be appropriate to say today, it is natural to look back to see what the circumstances were a year ago, and what was said at that time. I am almost sorry I did that this year because too much unhappy similarity with last year still exists.

A year ago I mentioned that the main causes for uncertainty were inflation, unemployment, the floating exchange rate, the White Paper, and the efforts of the Prices and Incomes Commission. Today we still have high unemployment. Prices levelled out during the year raising our hopes substantially, but are once again showing increases which we cannot disregard. Wage settlements have continued at rates higher than productivity and inflation justify. The Prices and Incomes Commission was partially successful in having the line held on most prices, but only temporarily.

We have also lived for a year with a floating exchange rate, and have had an opportunity to appreciate some of the implications. The effect of the higher value of the Canadian dollar has been severe on all our export industries, and nearly disastrous on some, such as the pulp and paper companies. Nevertheless, it is one of the characteristics of an open economy such as we have in Canada that if we had not freed the Canadian dollar, external pressures would have been too great for us to sustain, and we would by

now be suffering from inflation forced upon us from abroad, to an extent that we might well consider disastrous.

Our recent experience with inflation and unemployment shows us that there is no pat or easy cure once these conditions have been allowed to develop. It would seem to reinforce the belief frequently expressed by economists that our present statistics, and other indicators, are inadequate. It seems to be equally true that our over-all performance has been far from perfect indeed. With improved information when economic signals give warning of these dangerous developments, governments must move early, calmly, and relatively gently, using to the full appropriate fiscal powers and monetary powers in the presence of a floating exchange rate. Action was taken a year ago to free the dollar, but there is room for some doubt as to whether monetary policy was not changed too suddenly, too late, and too much, and whether fiscal steps have been adequate and directed towards the best possible effect. Recovery is slow; undoubtedly the economy will take considerable time to return to a desirable rate of growth and stability.

Last week the Minister of Finance introduced his budget and tax reform legislation. On the whole the proposals appear to be constructive, although disappointing, in that most of them will have no stimulating effect until 1972. Credit is due, I believe, to Mr. Benson for listening to the voices of the Senate and Commons Committees and the Provinces, which expressed disagreement with some of the White Paper proposals regarding integration, capital gains combined with estate tax, the 5-year valuation, small business and others. The effect should be expansionary, which is desirable at this time, projected far enough into the future that there is some prospect of maintaining the thrust for a reasonable period.

From the corporation point of view I believe it is constructive to put Canadian

companies on equal footing with others by allowing them to deduct interest on money borrowed for acquisitions, as there has been inequity in the past. We also welcome the proposed reduction in corporate tax rates which should improve competitiveness and encourage efficiency. It is a source of satisfaction that the surtax will at last be removed from July 1st on.

The suggested dividend tax credit is intended to encourage wider investment in the shares of Canadian companies and to help attract savings to equity ownership, perhaps reducing the extent to which foreign capital has filled this vacuum. Unfortunately it appears that some aspects of integration have been introduced in this proposal which raise questions concerning its effectiveness in carrying out the purpose.

In that it rewrites the whole Income Tax Act, the presentation is monumental in character and will need careful examination and considerable thought. It is not impossible that it will be improved before being implemented in final legislation.

Matters involving the very future of this country have again given rise to uncertainty because of events in the field of national unity since our last meeting. Not only have we had lengthy federal-provincial conferences where any agreement has only been grudgingly achieved, but we had the shocking series of events in the Province of Quebec which created grave anxieties and severe tensions, and damaged our reputation in the world at large. It can only be most fervently hoped that Quebec will continue its progress towards the security of its cultural and social aspirations in an atmosphere of helpful sympathy and understanding devoid of violence. If realistic appreciation of our good fortune at our present state of evolution, compared to nearly all other countries of the world, does not bring forth reason and balance and statesmanship in dealing with problems in this respect, there will indeed be cause for pessimism in the future.

During the past year business has been given a disproportionate share of the blame for all that has gone wrong, particularly unemployment, inflation and pollution. We have had some legislation of a somewhat restrictive nature, and more threats of further government interference with business. At this time perhaps it is advisable to remind both governments and the public of how very deeply governments are involved in business.

Few people realize how little profit there is in one dollar of sales. Public opinion questionnaires often elicit estimates of 10% to 20%. In our own case, you will see that with sales of \$315,000,000, net profit of \$12.6 million represents only 4 cents out of every dollar's worth of business. Income tax alone paid to the federal government was closer to 5 cents on the dollar, and other taxes to all levels of governments accounted for a further 26 cents, making a total of 31 cents for the government out of every dollar of sales, and 4 cents for the shareholder to cover his dividend, and the amount retained in the business. Perhaps this would be better illustrated by telling you that the actual amount paid to all the levels of government by our company was \$98 million. While such a sum is indeed impressive, let me hasten to add that other government revenues resulting from our sales, primarily government mark-ups and various hospital and provincial sales taxes derived from the consumer, amounted to a further \$32 million. Thus the activities of your company in the marketplace generated for governments about \$130 million, while earning \$12.6 million for us. So, we are partners with government—for every dollar we make, government gets eleven.

Critics crying out against what are often described as unconscionable business profits, should be fully aware that if they succeed, far more than the shareholders, more than the employees, governments would be the heaviest losers.

In spite of the complexity of the Canadian economic scene I have alluded to, our company has had moderate success in consolidating its business directions and activities during the year, and the results, just a little better than last year, I feel are satisfactory. The president will be dealing with last year's activities and problems in some detail. My task has been to review the background against which we meet today, which I have tried to do for you.

In closing my remarks, I should like to say that I believe your company is in better form to face the year ahead than it was one year ago. Given a reasonable economic climate, I am confident that we will be able to perform in a manner satisfactory to our shareholders.

Report by

D. G. Willmot,

President

You have had an opportunity to review your company's annual report which was mailed recently. Extra copies are available today in case you would like to refer to it.

The Canadian and U.S. economy in the past year has not been buoyant, to say the least; however, we were able to report that your company's consolidated sales for the year ended March 31 last were \$314.7 million, an increase of 0.6 per cent over last year. Net earnings before extraordinary items increased to \$13.7 million, or \$1.20 per share, from \$13.3 million or \$1.17 per share last year. Net earnings after extraordinary

items were increased by 3.7 per cent and earnings per share increased by the same percentage. While these are not large increases it is significant that improvement was shown under difficult economic conditions and contrary to the general trend of industrial earnings.

The freeing of the Canadian dollar by the federal government in respect to exchange rates resulted in an extraordinary loss of just over \$1 million, or 9 cents per share in this fiscal year. This was caused by the translation of the working capital of our U.S. subsidiaries into Canadian dollars reflecting the new rate of exchange in effect on March 31, 1971.

Operations—Brewing

For the first time in the nearly 200-year history of our breweries, sales of beer and ale exceeded 4 million barrels, or 100 million gallons, in fiscal 1971. Revenues rose nearly 5 per cent over last year, but profit contribution rose by less than half that amount, which reflects the cost/price squeeze affecting many companies today. In most provinces your company has no choice in establishing selling prices for beer and ale and, unfortunately, price increases have always lagged behind cost increases in the brewing industry. In fiscal 1971 we spent nearly \$9 million in updating and mechanizing operations in our brewing group and large capital expenditures will continue for the next several years in order to increase capacity and to offset in part rising costs.

Operations—Industrial Groups

The definite slowdown last year in capital expenditures for commercial and industrial buildings and equipment in Canada had its effect on our construction-related divisions. There are indications that construction activity is on the upturn now, and if this trend continues, we can expect improvements in sales and profitability in the year ahead.

One particularly bright spot was the sales and earnings of our Bennett gasoline pump division in Muskegon, Michigan. This came

about by large purchases of pumps by the major oil companies to market no-lead gasolines in the U.S. and, to a lesser degree, in Canada. We expect a softening in demand in the year ahead as the sales of no-lead gasolines in the U.S. are not meeting the expectations of the oil companies.

Our office furniture and our school supply divisions enjoyed increased sales for the second year in a row. The office furniture industry has excess manufacturing capacity and this, coupled with the slowdown in the economy, resulted in lower profit levels than a year ago. However, our school supply division, the only national school supply company in Canada, continued its sales growth and we expect this upward trend to continue. Sales of home furniture remained static during the year in a market affected by lower consumer spending.

Corporate Development

Following your company's policy of continually appraising operations relative to long-term objectives and opportunities, we disposed of two U.S. divisions and two small Canadian operations for the reasons explained in the annual report. These steps were taken because the profit potential or growth prospects in each case did not meet our performance standards.

The disposition of these four units is evidence of the extent to which your company must be alert to changing consumer requirements, new market opportunities, and product and process obsolescence. With the variety of operations in which the company is engaged, a continuing appraisal of the performance of our various assets is necessary. When future prospects of any operation become unattractive, it is management's responsibility to see that the investment in such an operation is deployed in a more positive direction.

However, a more important phase of this continuing re-examination of our various businesses is the identification of new opportunities, where participation by your com-

pany could lead to success in terms of meeting the changing needs of the public and an acceptable return for our efforts. One of the fruits of the competitive enterprise system is that all progressive companies go through this process and the consumer is in the position of having available constantly improving products at highly competitive prices.

The businesses of Molson's can be divided into three broad categories: brewing, secondary manufacturing and specialized service activities. It is a fact that opportunities for particular success in secondary manufacturing in Canada—due to the nature of our economy—are rather limited and specialized and, while we will continue to have an important stake in this phase of Canadian industry, nevertheless this circumstance does influence our future strategy. For this reason and also considering the company's extensive marketing skills, we believe we should be directing some of our future plans to activities more closely related to the consumer.

The recently announced plan to acquire Aikenhead Hardware Limited, with 19 retail outlets in Southern Ontario, is a move in this direction. We believe there is a particular opportunity for a well financed Canadian company to take a strong position in the household hard goods and home service merchandise portion of the retail market. We foresee this acquisition as the first step in the development of a large merchandising organization which will extend across Canada and possibly beyond our borders.

An expansion of our service oriented activities was announced several months ago with the acquisition of the Midwest Storage & Distributing Co. Ltd. in Winnipeg, which operates eleven storage and distribution facilities in 5 large Canadian cities. This complements the activities of our Seaway Storage division and your company now owns the largest warehousing and distribution service in Canada. This type of service industry has shown, and we believe will

continue to show, a better than average growth potential in sales and earnings.

This, then, is an illustration of the results in just one year of the continuing corporate process of appraisal of performance of operating units; decision to change direction where necessary, and subsequent expansion of present facilities and entry into new business areas.

Management Development

The training and development of our people has always been a matter of high priority in your company, but our needs in this area take on even added significance in the light of our corporate development plans and prospects. It is essential that we have a pool of well trained and broadly experienced managers from which to draw, not only to satisfy our normal and continuing needs, but also to help staff new or expanded businesses of the future.

To this end, our active internal programs are intended to give our present and potential middle management personnel insights into, and practical assistance in, specific areas of management practice and human relationships. These programs are supplemented by selective use of outside courses and programs of a general or specialized nature, depending on the individual need.

However, in the final analysis, most management skills are learned and not taught, and perhaps our most important contribution to management development therefore, is to actively expose our young potential managers to management activities at a senior level where the benefit of such experience will accelerate the development of the individual.

Corporate Responsibility

I am sure that those in the business and investment community feel to-day as they have in the past, that corporate responsibility involves an obligation to shareholders, employees and customers. In my opinion this does not properly embrace the change of

attitude in many companies to-day which includes the area of corporate citizenship and social responsibility. Business has been accused in the past of being too profit oriented. I have no patience with such comments because I believe they are prejudiced and misrepresentative. Profits in your company are not considered an end in themselves and must be identified not only with economic development, but with human welfare. Profits are necessary to every educational, social and political activity in which man attempts to serve his fellowman. Those who ignore the profit motive ignore this great generating force as an aid to progress and the institutions of health, learning and culture. We in Molson's believe that our conduct and priorities as to time are directed towards this broad responsibility.

However, to take a significant further step in this context, we are in the process of establishing a public affairs function in our headquarters group which would deal with our corporate activities in respect to government relations, corporate support in the areas of health, welfare, education and culture, community service, environmental matters, youth relations, and finally, communications both internal and external, as identified with these items.

Concern for the protection of our environment has become a matter of serious public interest. Your company has spent, and will continue to spend, time and money to find ways to effectively eliminate environmental pollution of all kinds at our various locations, and we actively engage in, or support, a number of re-cycling programs, important among which is the principle of the standard returnable bottle for beer in Canada. During the past several years we have initiated numerous pollution abatement projects at our breweries and industrial plants.

Unfortunately, public concern for our environment has reached the emotional stage in some quarters, but perhaps this is to be expected. All too often, pollution control is thought of as being someone else's problem

and I doubt if the individual is doing as much as he should in this respect. Needless to say, business has responded well to the challenge, but there are very few simple answers to such complex problems as are involved in questions of environmental control. You can be assured, however, that your company will continue to do everything possible to find solutions to whatever problems it may face in this area, which will be to the benefit of all in improving the quality of human life.

Outlook

Last year when I spoke to you, I predicted that barring unfavourable developments beyond the company's control, we anticipated an increase in earnings per share. Fortunately, this came to pass.

To-day, Canada is faced with many vexatious problems relating to the economy, unemployment and inflation. Our chairman's comments on some aspects of these problems are very timely. However, in the field of collective bargaining, one would hope that more wisdom and understanding on the part of all concerned would see a return to less inflationary wage settlements. Certainly under to-day's circumstances, your company is unable to offset rising costs with price adjustments in the market place and we cannot avoid some erosion of profit margins.

Due to the rationalization of certain of our operations and some recovery in demand in several of the markets we serve, I am pleased to report that the results of our operations for the first two months of this fiscal year are encouraging, with profits ahead of a year ago. However, one of our major units, the Bennett Pump division in Muskegon, Michigan, has been on strike for several weeks due to a community-wide union-company problem involving a number of other firms as well.

Barring this circumstance, I would expect the profits for the full year will exceed those for the previous period and we face the foreseeable future with confidence.

Additional copies of these reports may be obtained from: Molson Industries Limited, Public Relations Department, P.O. Box 6015, Toronto A.M.F., Ontario.



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JUN - 7 1971

MOLSON INDUSTRIES LIMITED

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

The annual meeting of the shareholders of Molson Industries Limited will be held at the head office of the Company, 1555 Notre Dame Street East, Montreal, on Wednesday, June 23, 1971, at 11 :30 o'clock in the forenoon (Eastern Daylight Saving Time) for the purposes of:

1. Receiving the report of the directors, the consolidated financial statements of the Company and subsidiaries and the auditors' report thereon, for the year ended March 31, 1971 ;
2. Electing directors ;
3. Appointing auditors and authorizing the directors to fix their remuneration ; and
4. Transacting such other or further business as may properly come before the meeting or any adjournment thereof.

Montreal, June 3, 1971

J. B. JOLLEY, Secretary.

NOTE:

Any shareholder who is unable to attend this annual meeting in person, is requested to complete, date and sign the enclosed form of proxy and return it to the Company in the stamped envelope provided for that purpose.

INFORMATION CIRCULAR

(Information stated as at May 15, 1971)

Management Solicitation of Proxies

This Information Circular is furnished in connection with the solicitation by the management of Molson Industries Limited (the "Company") of proxies for use at the annual meeting of shareholders (the "Meeting") of the Company to be held on Wednesday, June 23, 1971, at the time and place and for the purposes set forth in the foregoing notice of meeting, and at any adjournment thereof. Management does not contemplate solicitation of proxies otherwise than by the mails, the total cost of which will be borne by the Company.

It is not intended to use the proxy for the purpose of voting upon the report of the directors, the consolidated financial statements of the Company and subsidiaries and the auditors' report thereon, for the fiscal year ended March 31, 1971.

Voting Shares and Principal Holders Thereof

The only equity shares in the capital stock of the Company are the Class "B" common shares ("Class "B" shares") and Class "C" convertible common shares ("Class "C" shares"). There are issued and outstanding 3,969,354 Class "B" shares and 1,258,942 Class "C" shares. Holders of Class "B" and Class "C" shares of record at the time of the Meeting will be entitled to be present at and to vote, on the basis of one vote for each such share held, at the Meeting of the Company. Holders of the Company's Class "A" common shares ("Class "A" shares") of record at the time of the Meeting will be entitled to be present at the Meeting and, voting separately and as a class, to elect three members of the board of directors of the Company (each Class "A" common shareholder being entitled for that purpose to one vote for each Class "A" share held), but shall otherwise have no right to vote as shareholders either for the election of directors or for any other purpose.

Malsham Corporation Limited is the beneficial owner of 1,010,000 Class "B" shares of the Company, or 19.32% of the total outstanding equity shares of the Company. Mr. D. G. Wilmot, the President and Chief Executive Officer, and a Director, of the Company, directly or indirectly beneficially owns 566,553 Class "C" shares, or 10.84% of the total outstanding equity shares of the Company. Mr. T. H. P. Molson, the Honorary Chairman of the Board, and a Director of the Company, beneficially and directly owns 511,275 Class "B" shares and 38,250 Class "C" shares, which in aggregate represent 10.51% of the total outstanding equity shares of the Company.

Designation and Revocation of Proxies

The persons named in the enclosed form of proxy are directors of the Company and have indicated to the Company their willingness to represent as proxy, the shareholders desiring to so appoint them.

However, each shareholder is entitled to appoint a person to represent him at the Meeting other than the individuals named in the form of proxy enclosed. If any such shareholder wishes to designate as his nominee some person other than the individuals named in the form of proxy, their names should be deleted and the name of the desired nominee inserted in the blank space provided therein.

A shareholder executing and returning the enclosed form of proxy may revoke the same by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if the shareholder is a corporation, under its corporate seal or by an officer or attorney thereof duly authorized, and deposited either at the head office of the Company at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used or with the chairman of the Meeting on the day of the Meeting, or any adjournment thereof.

Voting of Management Proxies

Shares represented by the form of proxy hereby solicited will be voted or withheld from voting in accordance with the specification made by the person whose proxy is solicited. If no specification is made, such shares will be voted.

The proxy hereby solicited confers discretionary authority with respect to amendments or variations to the matters identified in the foregoing notice of meeting and to other matters which may properly come before the Meeting. Management is not aware that any such amendments, variations or other matters are to be presented for action at the Meeting.

Election of Directors

The by-laws of the Company provide that the board of directors shall consist of eighteen directors. Each director elected will hold office until the next annual meeting of shareholders or until his successor is duly elected or appointed. The persons listed below, all of whom are now members of the board of directors, will be nominated for election. Unless authority to vote has been withheld, the Class "A" shares represented by proxies will be voted for the election of the three persons indicated as nominees for election by the holders of the Class "A" shares, and the Class "B" and Class "C" shares represented by proxies will be voted for the election of the remaining fifteen nominees listed. Management does not contemplate that any of the nominees will be unable or unwilling to serve as a director but, if that should occur for any reason prior to the Meeting, the individuals named in the enclosed form of proxy reserve, and shall have, the right to vote for any substitute nominee or nominees which in its discretion management may select.

Name, position with Company and principal occupation	Director since	Equity shares beneficially owned	
		Class "B"	Class "C"
Nominees for Election by the Holders of Class "A" shares			
H. N. Bawden Director, Dominion Securities Corporation Limited (investment dealer)	1968	—	3,400
W. P. Frankenhoff Executive Vice President, William E. Hill and Company, Inc. (management consultants)	1968	5	—
Norman E. Whitmore President, Wascana Investments Limited (general investment)	1966	6,000	—
Nominees for Election by the Holders of Class "B" and Class "C" shares			
J. T. Black Executive Vice President, Operations	1967	3,000	—
Peter D. Curry Chairman of the Board, The Investors Group (financial company)	1963	2,000	—
Donald S. Harvie President, Canadian Fina Oil Limited (petroleum exploration and production)	1965	7,500	—
David Lakie Senior Vice President, Canadian Industrial Group	1968	—	3,000
Roger Létourneau, Q.C. Partner of the legal firm of Létourneau, Stein, Marseille, Delisle & Larue	1964	400	—
Morgan McCammon, Q.C. Senior Vice President, Corporate Services	1966	120	—
A. G. McCaughey Senior Vice President, Finance	1970	500	—
H. C. F. Mockridge, Q.C. Partner of the legal firm of Osler, Hoskin & Harcourt	1962	200	—
*H. deM. Molson Chairman of the Board	1938	199,250	43,050
J. David Molson President and Chairman of the Board Canadian Arena Company (sports and entertainment)	1966	6,950	—
*T. H. P. Molson Honorary Chairman of the Board	1930	511,275	38,250
Gérard Plourde Chairman of the Board, UAP Inc. (automotive parts and accessories)	1968	200	—
F. H. Sobey Chairman of the Board, Sobeys Stores Limited (retail merchandising)	1969	1,610	91,602
G. B. Waterman Senior Vice President, U.S. and International Industrial Group	1968	200	9,690
D. G. Willmot President and Chief Executive Officer	1968	—	566,553**

*Malsham Corporation Limited, the Estate of the late Herbert Molson and other associates of Mr. T. H. P. Molson and Honourable H. deM. Molson, collectively own beneficially 1,099,350 Class "B" shares.

**Mr. D. G. Willmot owns beneficially and directly 107,553 Class "C" shares. Willcrest Limited, an associate of Mr. Willmot, owns beneficially and directly 459,000 Class "C" shares.

Remuneration of Directors and Officers

The aggregate direct remuneration paid or payable during the 1971 fiscal year by the Company and subsidiaries to the directors of the Company as directors and to the officers of the Company as officers amounted to \$39,000 and \$803,272, respectively.

Retirement Benefits of Officers

The Company does not provide for retirement benefits to directors who are not officers of the Company.

The estimated annual benefits to the officers, as a group, upon retirement under the Company pension plans aggregate \$352,993. Such benefits have been projected on the assumption that such persons will continue in their employment with the Company at present remuneration until attaining normal retirement at age 65 and that the present pension plans of the Company will continue until then without change.

Stock Options to Officers

During the 1971 fiscal year, officers as a group exercised previously granted options to purchase Class "A" shares as follows :

	Number of	Option	Price Range
<u>Date of Purchase</u>	<u>Shares</u>	<u>Price</u>	<u>During 30 Days Preceding</u>
September 11, 1970	2,321	\$10.99	\$13½-\$14½
September 11, 1970	683	\$12.2253	\$13½-\$14½

Appointment and Remuneration of Auditors

Unless authority to vote has been withheld, the Class "B" and Class "C" shares represented by proxies will be voted to appoint as auditors of the Company the firm of McDonald, Currie & Co., the present auditors of the Company, and to authorize the directors to fix their remuneration.

Montreal, June 3, 1971

J. B. JOLLEY, Secretary.